

**REPORT OF THE AUDIT OF THE  
FORMER WAYNE COUNTY  
SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period  
June 1, 2006 Through January 2, 2007**



**CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS  
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**EXECUTIVE SUMMARY**  
**AUDIT EXAMINATION OF THE**  
**FORMER WAYNE COUNTY**  
**SHERIFF'S SETTLEMENT - 2006 TAXES**

**For The Period**  
**June 1, 2006 Through January 2, 2007**

The Auditor of Public Accounts has completed the audit of the former Wayne County Sheriff's Settlement - 2006 Taxes for the period June 1, 2006 through January 2, 2007. We have issued an unqualified opinion on the financial statement taken as a whole. Based upon the audit work performed, the financial statement is presented fairly in all material respects.

**Financial Condition:**

The former Sheriff collected taxes of \$4,326,871 for the districts for 2006 taxes, retaining commissions of \$179,423 to operate the Sheriff's office. The former Sheriff distributed taxes of \$4,142,593 to the districts for 2006 Taxes. Taxes of \$19 are due to the Wayne County School District from the former Sheriff.

**Report Comment:**

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

**Deposits:**

The former Sheriff's deposits were insured and collateralized by bank securities.



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**CRIT LUALLEN**  
**AUDITOR OF PUBLIC ACCOUNTS**

To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Greg Rankin, Wayne County Judge/Executive

Honorable James L. Hill, Former Wayne County Sheriff

Honorable Charles Boston, Wayne County Sheriff

Members of the Wayne County Fiscal Court

Independent Auditor's Report

We have audited the former Wayne County Sheriff's Settlement - 2006 Taxes for the period June 1, 2006 through January 2, 2007. This tax settlement is the responsibility of the former Wayne County Sheriff. Our responsibility is to express an opinion on this financial statement based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America, the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States, and the Audit Guide for Sheriff's Tax Settlements issued by the Auditor of Public Accounts, Commonwealth of Kentucky. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statement is free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statement. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

As described in Note 1, the Sheriff's office prepared the financial statement on a prescribed basis of accounting that demonstrates compliance with the modified cash basis, which is a comprehensive basis of accounting other than accounting principles generally accepted in the United States of America.

In our opinion, the accompanying financial statement referred to above presents fairly, in all material respects, the former Wayne County Sheriff's taxes charged, credited, and paid for the period June 1, 2006 through January 2, 2007, in conformity with the modified cash basis of accounting.

In accordance with Government Auditing Standards, we have also issued our report dated February 25, 2008 on our consideration of the former Sheriff's internal control over financial reporting and on our tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with Government Auditing Standards and should be considered in assessing the results of our audit.



To the People of Kentucky

Honorable Steven L. Beshear, Governor

Jonathan Miller, Secretary

Finance and Administration Cabinet

Honorable Greg Rankin, Wayne County Judge/Executive

Honorable James L. Hill, Wayne County Sheriff

Honorable Charles Boston, Wayne County Sheriff

Members of the Wayne County Fiscal Court

Based on the results of our audit, we present the accompanying comment and recommendation, included herein, which discusses the following report comment:

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties

Respectfully submitted,

A handwritten signature in black ink, appearing to read "Crit Luallen", with a long horizontal flourish extending to the right.

Crit Luallen

Auditor of Public Accounts

February 25, 2008



WAYNE COUNTY  
JAMES L. HILL, FORMER SHERIFF  
SHERIFF'S SETTLEMENT - 2006 TAXES

For The Period  
June 1, 2006 to January 2, 2007

<u>Charges</u>	<u>County Taxes</u>	<u>Special Taxing Districts</u>	<u>School Taxes</u>	<u>State Taxes</u>
Real Estate	\$ 580,427	\$ 810,627	\$ 2,027,272	\$ 687,913
Tangible Personal Property	97,108	102,762	148,088	167,966
Fire Protection	3,534			
Increases Through Exonerations	255	347	1,264	303
Supplemental Official Receipt	303	413	1,092	366
Franchise Taxes	47,689	51,085	79,301	
Additional Billings	88	119	307	103
Bank Franchises	46,685			
Penalties	2	3	10	3
Adjusted to Sheriff's Receipt	(37)	24	(11)	(7)
Gross Chargeable to Sheriff	776,054	965,380	2,257,323	856,647
<u>Credits</u>				
Exonerations	2,730	3,779	9,922	3,237
Discounts	11,067	13,533	32,044	13,036
Transfer to Incoming Sheriff				
Official Receipt for Unpaid Bills	63,488	87,373	213,144	75,111
Franchise Taxes	19	20	30	
Total Credits	77,304	104,705	255,140	91,384
Taxes Collected	698,750	860,675	2,002,183	765,263
Less: Commissions *	29,984	36,541	80,087	32,811
Taxes Due	668,766	824,134	1,922,096	732,452
Taxes Paid	668,098	823,179	1,919,707	731,609
Refunds (Current and Prior Year)	668	955	2,370	843
Due Districts or (Refunds Due Sheriff) as of Completion of Audit	\$ 0	\$ 0	\$ 19	\$ 0

\* Commissions:

10% on \$	10,000
4.25% on \$	2,299,645
4% on \$	2,017,226

The accompanying notes are an integral part of this financial statement.

WAYNE COUNTY  
NOTES TO FINANCIAL STATEMENT

January 2, 2007

Note 1. Summary of Significant Accounting Policies

A. Fund Accounting

The Sheriff's office tax collection duties are limited to acting as an agent for assessed property owners and taxing districts. A fund is used to account for the collection and distribution of taxes. A fund is a separate accounting entity with a self-balancing set of accounts. Fund accounting is designed to demonstrate legal compliance and to aid financial management by segregating transactions related to certain government functions or activities.

B. Basis of Accounting

The financial statement has been prepared on a modified cash basis of accounting. Basis of accounting refers to when charges, credits, and taxes paid are reported in the settlement statement. It relates to the timing of measurements regardless of the measurement focus.

Charges are sources of revenue which are recognized in the tax period in which they become available and measurable. Credits are reductions of revenue which are recognized when there is proper authorization. Taxes paid are uses of revenue which are recognized when distributions are made to the taxing districts and others.

C. Cash and Investments

At the direction of the fiscal court, KRS 66.480 authorizes the Sheriff's office to invest in the following, including but not limited to, obligations of the United States and of its agencies and instrumentalities, obligations and contracts for future delivery or purchase of obligations backed by the full faith and credit of the United States, obligations of any corporation of the United States government, bonds or certificates of indebtedness of this state, and certificates of deposit issued by or other interest-bearing accounts of any bank or savings and loan institution which are insured by the Federal Deposit Insurance Corporation (FDIC) or which are collateralized, to the extent uninsured, by any obligation permitted by KRS 41.240(4).

Note 2. Deposits

The Sheriff maintained deposits of public funds with depository institutions insured by the Federal Deposit Insurance Corporation (FDIC) as required by KRS 66.480(1)(d). According to KRS 41.240(4), the depository institution should pledge or provide sufficient collateral which, together with FDIC insurance, equals or exceeds the amount of public funds on deposit at all times. In order to be valid against the FDIC in the event of failure or insolvency of the depository institution, this pledge or provision of collateral should be evidenced by an agreement between the Sheriff and the depository institution, signed by both parties, that is (a) in writing, (b) approved by the board of directors of the depository institution or its loan committee, which approval must be reflected in the minutes of the board or committee, and (c) an official record of the depository institution.

WAYNE COUNTY  
NOTES TO FINANCIAL STATEMENT  
January 2, 2007  
(Continued)

Note 2. Deposits (Continued)

Custodial Credit Risk - Deposits

Custodial credit risk is the risk that in the event of a depository institution failure, the Sheriff's deposits may not be returned. The former Sheriff does not have a deposit policy for custodial credit risk but rather follows the requirements of KRS 41.240(4). As of January 2, 2007, all deposits were covered by FDIC insurance or a properly executed collateral security agreement.

Note 3. Tax Collection Period

The real and personal property tax assessments were levied as of January 1, 2006. Property taxes were billed to finance governmental services for the year ended June 30, 2007. Liens are effective when the tax bills become delinquent. The collection period for these assessments was September 21, 2006 through January 2, 2007.

Note 4. Interest Income

The former Wayne County Sheriff earned \$1,359 as interest income on 2006 taxes. The former Sheriff was in substantial compliance with his statutory responsibility regarding interest.

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REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON  
COMPLIANCE AND OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL  
STATEMENT PERFORMED IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS





CRIT LUALLEN  
AUDITOR OF PUBLIC ACCOUNTS

The Honorable Greg Rankin, Wayne County Judge/Executive  
Honorable James L. Hill, Former Wayne County Sheriff  
Honorable Charles Boston, Wayne County Sheriff  
Members of the Wayne County Fiscal Court

Report On Internal Control Over Financial Reporting And On  
Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards

We have audited the former Wayne County Sheriff's Settlement - 2006 Taxes for the period June 1, 2006 through January 2, 2007, and have issued our report thereon dated February 25, 2008. The former Sheriff prepared his financial statement in accordance with a basis of accounting other than generally accepted accounting principles. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

In planning and performing our audit, we considered the former Wayne County Sheriff's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the former Sheriff's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the former Wayne County Sheriff's internal control over financial reporting.

Our consideration of internal control over financial reporting was for the limited purpose described in the preceding paragraph and would not necessarily identify all deficiencies in internal control over financial reporting that might be significant deficiencies or material weaknesses. However as discussed below, we identified a certain deficiency in internal control over financial reporting that we consider to be a significant deficiency.

A control deficiency exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent or detect misstatements on a timely basis. A significant deficiency is a control deficiency, or combination of control deficiencies, that adversely affects the entity's ability to initiate, authorize, record, process, or report financial data reliably in accordance with the modified cash basis of accounting which is a basis of accounting other than generally accepted accounting principles such that there is more than a remote likelihood that a misstatement of the entity's financial statement that is more than inconsequential will not be prevented or detected by the entity's internal control over financial reporting. We consider the deficiency described in the accompanying comment and recommendation to be a significant deficiency in internal control over financial reporting.

- The Former Sheriff's Office Lacked Adequate Segregation Of Duties



Report On Internal Control Over Financial Reporting And  
On Compliance And Other Matters Based On An Audit Of The Financial  
Statement Performed In Accordance With Government Auditing Standards  
(Continued)

Internal Control Over Financial Reporting (Continued)

A material weakness is a significant deficiency, or combination of significant deficiencies, that results in more than a remote likelihood that a material misstatement of the financial statement will not be prevented or detected by the entity's internal control. Our consideration of the internal control over financial reporting was for the limited purpose described in the first paragraph of this section and would not necessarily identify all deficiencies in the internal control that might be significant deficiencies and, accordingly, would not necessarily disclose all significant deficiencies that are also considered to be material weaknesses. However, we consider the significant deficiency described above to be a material weakness

Compliance And Other Matters

As part of obtaining reasonable assurance about whether the former Wayne County Sheriff's Settlement – 2006 Taxes for the period June 1, 2006 through January 2, 2007 is free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

The former Wayne County Sheriff's response to the finding identified in our audit is included in the accompanying comment and recommendation. We did not audit the former Sheriff's response and, accordingly, we express no opinion on it.

This report is intended solely for the information and use of management, the Wayne County Fiscal Court and the Kentucky Governor's Office for Local Development and is not intended to be and should not be used by anyone other than these specified parties.

Respectfully submitted,



Crit Luallen  
Auditor of Public Accounts

February 25, 2008



COMMENT AND RECOMMENDATION



WAYNE COUNTY  
JAMES L. HILL, FORMER SHERIFF  
COMMENT AND RECOMMENDATION

For The Period  
June 1, 2006 through January 2, 2007

INTERNAL CONTROL – SIGNIFICANT DEFICIENCY AND MATERIAL WEAKNESS:

The Former Sheriff's Office Lacked Adequate Segregation Of Duties

During our review of internal controls, we noted the former Sheriff's office lacked adequate segregation of duties over receipts and disbursements. The former Sheriff's bookkeeper received tax payments, prepared daily checkouts and bank deposits, recorded tax receipts and expenditures to the ledgers, prepared tax distributions, reconciled bank records, and prepared all reports.

The former Sheriff should have segregated duties or implemented compensating controls to offset the lack of segregation of duties. The following procedures would have strengthened internal controls:

- The former Sheriff should have periodically recounted and deposited cash receipts. This could have been documented by initialing the daily check out sheet and deposit ticket.
- The former Sheriff should have performed surprise cash counts and documented this by initialing the daily checkout sheet.
- The former Sheriff should have periodically agreed tax collection totals to the receipts ledger and bank deposit slips. This could have been documented by initialing the bank deposit, daily checkout sheet, and receipts ledger.
- The former Sheriff should have agreed monthly tax reports to the receipts and disbursements ledgers. This could have been documented by initialing the tax report and the ledgers.
- The former Sheriff should have required dual signatures on checks, with one signature being the Sheriff's.
- The Sheriff should have examined tax distribution checks prepared by the bookkeeper. This could have been documented by initialing the tax report and the check stub.
- The former Sheriff should have maintained custody of checks until mailed or delivered to the taxing district.

*Former Sheriff's Response: This was due to size of office.*

